

# Proposed Arm's-Length Adjustment Service



**GUIDE TO THE PRELIMINARY DESIGN**

**MTC EXECUTIVE COMMITTEE  
DECEMBER 12, 2014**

**DAN BUCKS  
PROJECT FACILITATOR**

# Introductory Comments



- Process
  - Open and Transparent
  - State of the Art Knowledge from States and Experts
  - Executive Management Perspective: Fitting Pieces Together
- Service Readily Cost Justified
- Long-Term Resource for Several Contexts & States
- Key Step: Response of States

# Why States Need to Act



## Improper Income Shifting Causes:

- Significant, unjustified state revenues losses.
- Uneven playing field among businesses.
- Unfair shifts of public service costs to other taxpayers.
- Loss of societal trust.

# Mission of Service



The MTC Arm's Length Adjustment Service provides states with timely, cost-effective services and opportunities for interstate cooperation to help attain equitable compliance by corporate taxpayers with state business taxes in circumstances where improper related party transactions undermine equity in taxation.

**Proposed goals and objectives tailored to this mission.**

# Interrelated Service Elements



- Training
- Analysis of Transfer Pricing Studies
- State Capacity Building—Beyond Training
- Optional Joint Audits

**All Mutually Supportive**

# Pre-Launch Stage



Begin  
Recruiting  
States



“Identifying Issues”  
Course



January 2015



February 2015



March 2015

Revise  
Preliminary  
Design

Draft Staff Recruiting  
Documents and Initial  
Performance Objectives

# Pre-Launch Stage



Sufficient # of  
States Triggers  
Staff Recruiting

States Appoint  
ALAS Committee  
Tax Manager Hired

April 2015

May 2015

June 2015

Draft Documents:

- RFP for Economic Services Contract(s)
- Exchange of Information Process

Refine Performance  
Objectives to Submit to  
ALAS Committee

# Developmental Stage—Year One



**Service  
Launched!**

ALAS Committee Meets  
Reviews Performance  
Objectives

RFP Issued for  
Economic  
Services



July 2015



August 2015



September 2015

Tax Manager  
Begins July 1

Information Agreement  
Drafted and Circulated to  
States

# Developmental Stage



Information Exchange Process Established

Contract(s) Signed for Economic Services

- States Select Cases for Transfer Pricing Analysis

October 2015

November 2015

December 2015

Tax Manager Begins July 1

Recruiting for Senior Economist

ALAS and Audit Committees Consult on Related Party Audits

Recruiting for Attorney

# Developmental Stage—Year One



Analysis of Transfer  
Pricing Studies  
Underway



January 2016



February 2016



March 2016

Senior  
Economist  
Begins  
January 1

Organizing  
Initial  
Training  
Efforts

Recruiting for  
Pricing  
Auditor

Attorney Begins  
March 1 & Organizing  
Case Assistance &  
Resolution for States

# Developmental Stage—Year One



Training  
Conference for  
Front-Line Staff

Identifying Issues  
& Securing  
Documents  
Course

Case Assistance  
& Resolution  
Begins

9 Transfer  
Pricing Analyses  
Completed



April 2016



May 2016



June 2016

Pricing  
Auditor  
Begins  
April 1

States Designate  
Staff for Pricing  
Study Audits

Developing Taxpayer  
Voluntary Disclosure  
Opportunity

Organizing Training  
of State-Designated  
Pricing Audit Staff

# Developmental Stage—Year Two



Voluntary Disclosure  
Process Begins with  
Taxpayer  
Applications

First Half of Training  
for State Pricing Audit  
Staff

Process Improvement  
Activities Begin



July 2016



August 2016



September 2016

States Submit Cases  
for Year 2 Transfer  
Pricing Study  
Analysis

Audit Program  
Expands Treatment  
of Related Party  
Issues

Recruiting for  
Second Economist

# Developmental Stage—Year Two



Fundamentals of  
Related Party  
Compliance Course  
& Front-Line Staff  
Conference

Second Half of Training  
for Pricing Auditors--  
Technical Audits of  
Pricing Studies Begin

Six-Month Taxpayer  
Application Period  
Closes for Voluntary  
Disclosures



October 2016



November 2016



December 2016

Second Economist  
Begins October 1

ALAS Economists Begin  
Supplementing Contract Economists  
in Analysis of Transfer Pricing  
Studies

# Developmental Stage—Year Two



Voluntary Disclosure  
Agreements Processed  
through March 31

Fundamentals of  
Related Party Federal  
& State Law Course



January 2017



February 2017



March 2017

Case Assistance Expands  
to Include Informal  
Evaluations of Taxpayer  
Positions

Technical Audits of Transfer Pricing  
Studies Increase

# Developmental Stage—Year Two



Semi-Annual Training  
Conference of Front-  
Line Staff--Identifying  
Issues & Securing  
Documents Course

18 Analyses of  
Transfer Pricing  
Studies Completed—  
15 Contract, 3 Staff

**All Service  
Elements  
Operational!**



April 2017



May 2017



June 2017

Recruiting for Third  
Economist

MTC Joint Audit Program  
Continues to Increase Attention  
to Related Party Issues

# Fully Operational Stage—Year Three



## Training

- Semi-Annual Front-Line Staff Conference
- Three Major Training Courses Annually: Law, Compliance, and Issues & Documents

## Transfer Pricing Analysis

- 24 Analyses, 12 by Staff, 12 by Contractors
- Technical Reviews in All Cases by ALAS Staff and Trained State Staff
- Informal Evaluations of Taxpayer Positions

# Fully Operational Stage—Year Three



## State Capacity Building

- Information Exchange, Case Assistance, Case Resolution and Litigation Support
- Process Improvement for Uniformity, Reduced Taxpayer Costs & Increased Effectiveness

## Optional Joint Audits

- MTC Joint Audits Fully Address Related Party Issues
- ALAS Provides Economics Expertise and Training

# Fully Operational Stage—Year Four



## Training

- Semi-Annual Front-Line Staff Conference
- Three Major Training Courses Annually in Fundamental or Advanced Versions

## Transfer Pricing Analysis

- 27 Analyses, 19 by Staff, 8 by Contractors
- Technical Reviews in All Cases by ALAS Staff and Trained State Staff
- Informal Evaluations of Taxpayer Positions

# Fully Operational Stage—Year Four



## State Capacity Building

- Information Exchange, Case Assistance, Case Resolution and Litigation Support
- Process Improvement for Uniformity, Reduced Taxpayer Costs & Increased Effectiveness

## Optional Joint Audits

- MTC Joint Audits Fully Address Related Party Issues
- ALAS Provides Economics Expertise and Training

# Evaluation Process



## Performance Objectives Year One

Drafted in Pre-Launch Stage  
Adopted by ALAS Committee to Guide Service in Charter Period

## Mid-Term Evaluation Year Three

Information Exchange  
Improvements  
Review of Training Mix & Methods  
Emerging Issues

## Final Evaluation

ALAS Evaluates Service Results Compared to Objectives  
Recommendations to MTC and States

# Budget



## Estimated ALAS Budget for Charter Period (Nearest \$1,000—Totals Do Not Add Due to Rounding)

Category	FY 2016	FY 2017	FY 2018	FY 2019	4-Yr.Total
General Services	\$ 534,000	\$ 789,000	\$701,000	\$ 717,000	\$ 2,741,000
Transfer Pricing Analysis	\$ 720,000	\$ 1,462,000	\$ 1,511,000	\$ 1,236,000	\$ 4,929,000
Total	\$1,254,000	\$2,250,000	\$2,213,000	\$1,954,000	\$7,670,000

# Staffing



## Summary of ALAS Staffing in Charter Period

Fiscal Year	Positions	Est. Hire Date	FTE
FY 2016	Tax Manager	July 1, 2015	1.00
	Senior Economist	January 1, 2016	.50
	Attorney	March 1, 2016	.33
	Pricing Auditor	April 1, 2016	.25
			<b>Total 2.08</b>
FY 2017	Staff in FY 2016		4.00
	Economist	October 1, 2016	.75
			<b>Total 4.75</b>
FY 2018	Staff in FY 2017		5.00
	Economist	July 1, 2017	1.00
			<b>Total 6.00</b>
FY 2019	Staff in FY 2018		<b>Total 6.00</b>

# Transfer Pricing Analyses and Costs



## Transfer Pricing Analyses and Costs Per State Report

Item	FY 2016	FY 2017	FY 2018	FY 2019
Contractor Analyses	9	15	12	8
Staff Analyses	0	3	12	19
<b>Total Analyses</b>	<b>9</b>	<b>18</b>	<b>24</b>	<b>27</b>
<b>State Reports</b>	<b>27</b>	<b>54</b>	<b>72</b>	<b>81</b>
<b>Average Cost Per State Report</b>	<b>\$26,700</b>	<b>\$27,100</b>	<b>\$21,000</b>	<b>\$15,300</b>